JOTF JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

TESTIMONY IN SUPPORT OF HB0221:

Motor Vehicle Insurance - Use of Credit History in Rating Policies

TO: Hon. Dereck Davis, Chair, and Members of the House Economic Matters Committee

FROM: Christopher Dews, Policy Advocate

DATE: February 11, 2021

The Job Opportunities Task Force (JOTF) is an independent, nonprofit organization that develops and advocates policies and programs to increase the skills, job opportunities, and incomes of low-skill, low-wage workers and job seekers in Maryland. JOTF supports House Bill 221 as a means to reduce discriminatory practices by insurers that result in disproportionately high auto insurance premiums and denials of coverage for individuals who are low-income, have limited education, and lack access to opportunities that can generate higher credit scores.

Mobility is a vital factor for working families, yet the insurance industry practice of using credit history, and other non-driving factors, targets individuals who are low-income, have limited education and do not have the means to change their financial state. Currently, the law permits insurers to determine eligibility for coverage and insurance premiums on the basis of education, place of residence, occupation, and most notably, credit history.

The effects of using these non-driving factors, specifically credit history, results in extreme racial disparities in auto insurance premiums and further perpetuates a cycle that many low-income workers are desperately trying to break. A 2013 study by the Consumer Federation of America (CFA) showed that several major auto insurers charge higher rates to drivers with less education and lower-status jobs, who also, undoubtedly, have a poor credit history. The same study found that good drivers with low credit scores are charged as much as **123 percent more** than drivers with high credit scores, controlling for all other factors including driving record. Lack of access to banking institutions, financial literacy, and the mounting fees associated with poverty, cause many low-income families to fall victim to predatory lending and debt that tank their credit. A 2012 CFA study also showed that insurers' use of credit scores, which are a proxy for income, show disparate treatment of low- and moderate-income drivers, with low-income drivers in Baltimore - the majority of whom are African American - being asked to pay significantly higher premiums due to their low-income status.

Contrary to this practice, a national survey in 2012 revealed that, by large majorities (68%), the public rejects the use of education and occupation by auto insurers in setting rates. Therefore, this practice is against good public policy and public opinion. Because of the discriminatory effect of using credit history in setting insurance premiums, California, Massachusetts, and Hawaii have banned insurers' use of credit scores in pricing. When CFA ranked all 50 states' by the rise in auto insurance rate rates since the 1990s, both California and Hawaii had the lowest rates of increase (12.5% and 13.6%, respectively) which was significantly less than the national average of 61%. This metric shows that eliminating the use of credit history and various other non-driving factors will *not dramatically increase* the rates of *all* drivers as some opponents have claimed.

Maryland Code Ann., Transportation §17–707 states that driving without auto insurance in Maryland is a crime punishable by up to (1) one year in jail, a $1000 fine, or both. As such, drivers must purchase at least a basic liability insurance policy that covers accidents caused by the driver, but with factors like credit history and zip code factored, even this basic coverage becomes unaffordable for lower-income families.

It is imperative that the unjust, discriminative practice of insurers using an individual's credit history to determine coverage and premiums for auto insurance be eliminated. The disproportionately high auto insurance premiums placed on low-income individuals, individuals of color, and individuals with limited educational attainment are regressive and present a great financial barrier in not only obtaining and securing employment but survival on a limited income, for the individuals who are least able to afford it.

House Bill 221 seeks to address this issue. The bill prohibits insurers from using an applicant's credit history in determining their level of risk. While insurance companies must charge different premiums to different groups based on their risk, there must be limits to the types of discrimination we allow insurers to engage in, to ensure a system that minimizes *actual* risk and provides protection in a fair and equitable manner. As House Bill 221 seeks to ensure that low-income and low-skill Marylanders are not unfairly denied coverage or saddled with high insurance premiums simply because they are poor, we respectfully urge the committee to issue a favorable report.